

City Of London Corporation

Monthly Investment Analysis Review

May 2017



City Of London Corporation

Monthly Economic Summary

General Economy

May was a month dominated by party manifesto releases ahead of the snap election on the 8th June. The Tory lead over Labour in the polls was halved after the releases with the Conservatives dropping 5% to 43% whilst Labour gained 5%, pushing them up to 34%. The Liberal Democrats have also gained momentum in recent polls, suggesting the election will be closer than many first thought.

The Manufacturing Purchasing Managers Index was the first release after the early May Bank Holiday. It spiked to a three year high of 57.3 in April from 54.2 in March. This jump was predominantly down to the weaker Sterling helping new factory orders increase. Construction PMI followed the positive trend as it accelerated to a four month high of 53.1 in April. Within the report, civil engineering saw its fastest pace of growth in a year, while house building registered a fourth consecutive month of improvement. As usual Services PMI was the last to be released and this echoed the positive releases from the previous two surveys as it rose to an unexpected four month high of 55.8, from 55.0 in March.

The Bank of England (BoE) released its Quarterly Inflation Report during the early stages of the month, noting that they may need to raise interest rates before the late 2019 date that markets had been pricing in as the Report was being compiled. The BoE amended its growth forecast for the UK to reach 1.9% in 2017. Inflation forecasts are now expected to remain above the 2% target until 2020. The report also noted that the Bank expects to see a pick-up in foreign trade and investment in 2017, which should offset a shortfall in domestic demand. Implications are that the BoE could raise interest rates for the first time since 2007 just as we leave the European Union.

UK CPI jumped up again in April, rising to its highest level since late 2013. Consumer prices increased at an annual rate of 2.7% up from the 2.3% increase seen in the previous month. The monthly rate showed that prices rose by 0.5% in April. The weaker Sterling, as a result of the Brexit vote almost a year ago, and the rise in oil prices globally are still seen to be instrumental in this jump. Other measures of inflation continued the upward trend as the annual growth rate in the Retail Price Index (RPI) rose to 3.5% from 3.1% in March. The rising inflation took its toll on household spending as Britain's economy slowed by more than previously thought in the first quarter of this year. Q1 grew at a quarterly rate of just 0.2%, down from the initial estimate of 0.3%. Meanwhile, the annual rate was at 2.0%, below the forecast of 2.1%.

There were positives and negatives with the UK unemployment release last month. On a positive note the unemployment rate dropped to 4.6% - a 42 year low with 31.947m people in work. However, more importantly wage growth grew by just 2.1% on an annual basis. This was significant as it fell behind the inflation level, tightening the current squeeze on household's disposable income and thus overshadowed the positive fall in the unemployment rate. Elsewhere, consumer credit in the 12 months to March was also disappointing as it grew by 10.2%, the weakest increase since July of last year.

UK trade was another disappointing release this month. Britain's goods trade deficit widened to £13.441bn taking the total trade deficit for the first quarter of 2017 to £10.540bn. This was down to growth in export orders slowing to 0.2% whilst import volumes jumped by 3.3%. UK Public Finances continued this negative trend as VAT revenues stalled in April. This caused the deficit to widen further than expected to £10.4bn, 13.1% higher compared with the same period last year.

On a more positive note, UK retail sales rebounded by more than expected in April. After a poor recording in March, retail sales grew at a monthly rate of 2.3% whilst the annual rate was recorded at 4.0%, showing British shoppers are shrugging off inflation pressures as the sun begins to appear. The UK GfK consumer confidence reading showed confidence rose to a four-month high in May to -5 from -7 in April, suggesting consumer demand is not slowing as previously anticipated, in light of the Brexit vote.

Further afield, Eurozone Q1 GDP flash estimates were released in April. The annual growth rate was recorded at 1.7% whilst the quarterly figure was at 0.5%. Romania produced one of the strongest annual rates at 5.6% whilst Greece's negative 0.5% growth rate proved to be one of the lowest. Elsewhere, the unemployment rate in the bloc remained stable at 9.3% in April 2017 as it fell from a downwardly revised 9.4% recorded in March 2017. This is the lowest rate recorded in the euro area since March 2009. The EU28 unemployment rate dropped to 7.8% in April from 7.9%. Spain had one of the highest unemployment rates at 17.8% whilst the Czech Republic had one of the lowest rate recorded at 3.2%.

Across the pond the Federal Reserve's meeting minutes were released for April. The Committee concluded to keep interest rates at the range of 0.75%-1.0% in April after raising them in March. It felt the central bank's monetary stance remains accommodative, supporting further strengthening in labour market conditions and a sustained return to 2% inflation. Non-Farm payrolls produced some positive figures for Donald Trump's first 100 days in charge. They increased by 211,000 a jump from the downwardly revised 79,000 in March. The unemployment rate also fell to 4.4% whilst earnings per hour increased by 0.3% in April an improvement on the 0.1% seen in the previous month. Meanwhile, the second estimates for US GDP showed an annual rate of 1.2%, a jump from original estimates of 0.7%. However, it still remains the weakest performance since Q1 2016. Analysts have suggested that there are issues related to the seasonal adjustment factors affecting Q1 growth, as this quarter has been consistently weak for a number of years.

Housing

Halifax house prices produced disappointing results for April. House price growth remained at a near four year low as prices rose at an annual rate of just 3.8% in the three months to April. On a monthly basis prices actually fell by 0.1% between March and April. The Bank of England released their mortgage approval figures for March this month and they were at a 6 month low. The number of mortgage approvals fell to 66,837 from 67,936. In addition, Nationwide house prices fell for the third consecutive month by 0.2% in May, dragging down the annualised figure to 2.1% from 2.6%. A recent squeeze on household income as a result of the weak Sterling may have been a contributing factor to the slowdown in the housing market.

Forecast

Neither Capita Asset Services (CAS) nor Capital Economics (CE) altered their forecasts this month. It is forecasted by CAS that a rate hike to 0.50% will occur in Q2 2019 followed by a further hike to 0.75% in Q4 2019. CE expects a hike in the bank rate to occur in Q2 2018 to 0.50% with further hikes forecasted in Q4 2018 to 0.75% and in Q2 2019 to 1.00%.

Bank Rate	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.50%

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Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	MMF Aberdeen	1,000,000	0.23%		MMF	AAA	0.000%
	MMF CCLA	10,000,000	0.22%		MMF	AAA	0.000%
	MMF Federated Investors (UK)	5,000,000	0.46%		MMF	AAA	0.000%
	MMF Federated Investors (UK)	1,000,000	0.23%		MMF	AAA	0.000%
	MMF Invesco	34,300,000	0.25%		MMF	AAA	0.000%
	Lloyds Bank Plc	9,900,000	0.25%		Call	A	0.000%
	MMF Payden & Rygel	55,000,000	1.30%		MMF	AAA	0.000%
	Santander UK Plc	100,000,000	0.65%		Call	A	0.000%
	MMF Standard Life	5,000,000	0.80%		MMF	AAA	0.000%
	MMF Standard Life	37,900,000	0.25%		MMF	AAA	0.000%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.30%	06/03/2017	06/06/2017	AA-	0.000%
	National Westminster Bank Plc	22,500,000	0.38%	06/01/2017	06/06/2017	BBB+	0.003%
	National Westminster Bank Plc	11,900,000	0.32%	07/02/2017	07/06/2017	BBB+	0.003%
	Glasgow City Council	10,000,000	0.40%	13/03/2017	13/06/2017	AA	0.001%
	Cambridgeshire County Council	10,000,000	0.45%	22/03/2017	22/06/2017	AA	0.001%
	Greater London Authority	20,000,000	0.30%	25/04/2017	26/06/2017	AA	0.002%
	Tameside Metropolitan Borough Council	10,000,000	0.30%	27/04/2017	27/06/2017	AA	0.002%
	Surrey County Council	25,000,000	0.46%	31/03/2017	30/06/2017	AA	0.002%
	Australia and New Zealand Banking Group Ltd	5,000,000	0.30%	03/04/2017	03/07/2017	AA-	0.002%
	Leeds Building Society	7,000,000	0.36%	03/01/2017	04/07/2017	A-	0.005%
	Leeds Building Society	5,000,000	0.36%	03/01/2017	05/07/2017	A-	0.005%
	Liverpool City Council	10,000,000	0.38%	05/04/2017	05/07/2017	AA	0.002%
	Lloyds Bank Plc	2,500,000	0.45%	06/04/2017	06/07/2017	A	0.006%
	Lloyds Bank Plc	11,400,000	0.45%	07/04/2017	07/07/2017	A	0.006%
	Lloyds Bank Plc	4,000,000	0.45%	10/04/2017	10/07/2017	A	0.006%
	Lloyds Bank Plc	18,400,000	0.45%	12/04/2017	12/07/2017	A	0.006%
	Northamptonshire County Council	10,000,000	0.30%	26/05/2017	26/07/2017	AA	0.004%
	Plymouth City Council	10,000,000	0.35%	10/05/2017	10/08/2017	AA	0.005%
	Barnsley Metropolitan Borough Council	5,000,000	0.45%	23/02/2017	23/08/2017	AA	0.005%
	Plymouth City Council	10,000,000	0.35%	24/05/2017	24/08/2017	AA	0.005%
	National Westminster Bank Plc	7,200,000	0.65%	30/08/2016	30/08/2017	BBB+	0.042%
	Dundee City Council	5,000,000	0.37%	28/04/2017	06/09/2017	AA	0.006%
	Birmingham City Council	25,000,000	0.50%	24/04/2017	25/09/2017	AA	0.007%
	North Lanarkshire Council	5,000,000	0.48%	24/02/2017	27/09/2017	AA	0.008%
	Rotherham Metropolitan Borough Council	10,000,000	0.34%	28/04/2017	28/09/2017	AA	0.008%
	Barclays Bank Plc	25,000,000	0.62%	03/04/2017	29/09/2017	A-	0.019%

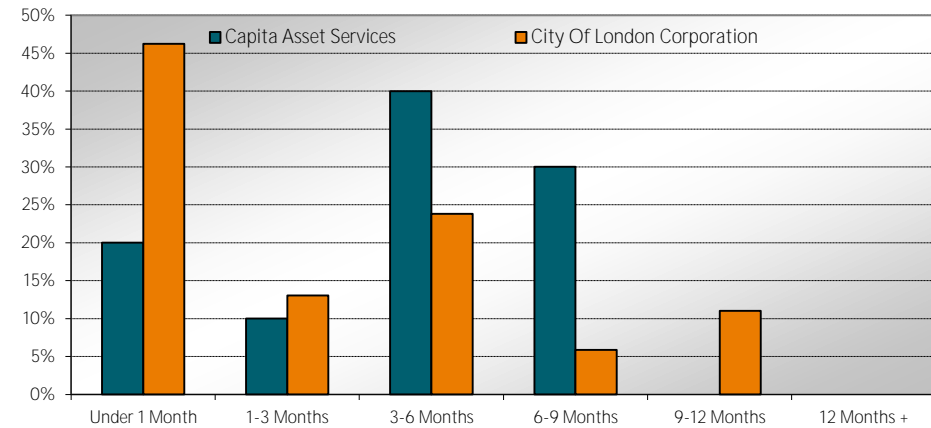
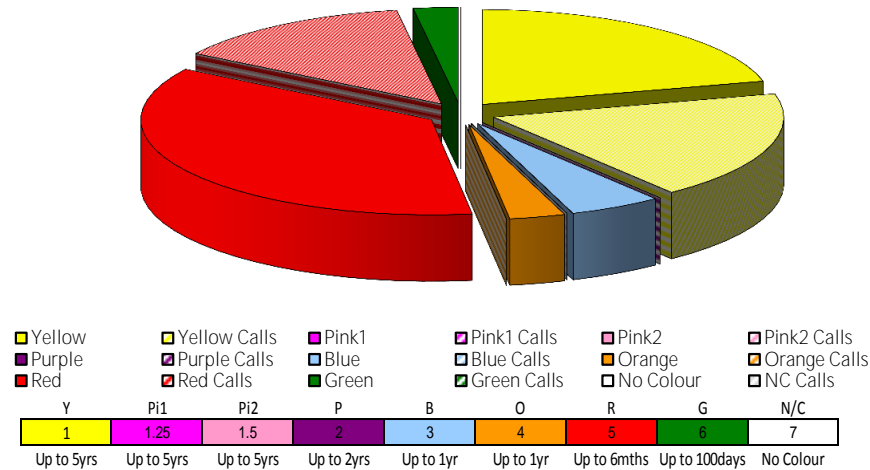
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Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	Lloyds Bank Plc	30,000,000	1.00%	03/10/2016	03/10/2017	A	0.019%
	Barclays Bank Plc	36,000,000	0.74%	04/01/2017	04/10/2017	A-	0.019%
	Lloyds Bank Plc	16,400,000	0.55%	04/04/2017	04/10/2017	A	0.019%
	Suffolk County Council	5,000,000	0.48%	06/03/2017	06/10/2017	AA	0.008%
	Lloyds Bank Plc	10,000,000	0.55%	12/04/2017	12/10/2017	A	0.021%
	Australia and New Zealand Banking Group Ltd	15,000,000	0.40%	03/05/2017	03/11/2017	AA-	0.010%
	Lloyds Bank Plc	10,000,000	0.55%	03/05/2017	03/11/2017	A	0.024%
	Coventry Building Society	20,000,000	0.45%	19/04/2017	12/12/2017	A	0.030%
	Lloyds Bank Plc	18,000,000	0.65%	03/05/2017	05/02/2018	A	0.039%
	Lloyds Bank Plc	9,400,000	0.65%	17/05/2017	19/02/2018	A	0.041%
	Barclays Bank Plc	25,000,000	0.84%	10/04/2017	29/03/2018	A-	0.047%
	Skipton Building Society	20,000,000	0.77%	24/04/2017	23/04/2018	BBB	0.152%
	Barclays Bank Plc	14,000,000	0.85%	26/04/2017	25/04/2018	A-	0.051%
	Goldman Sachs International Bank	30,000,000	0.87%	19/05/2017	18/05/2018	A	0.054%
	Total Investments	£807,800,000	0.59%				0.015%

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Portfolio Composition by Capita Asset Services' Suggested Lending Criteria



Portfolios weighted average risk number =

3.31

WARoR = Weighted Average Rate of Return

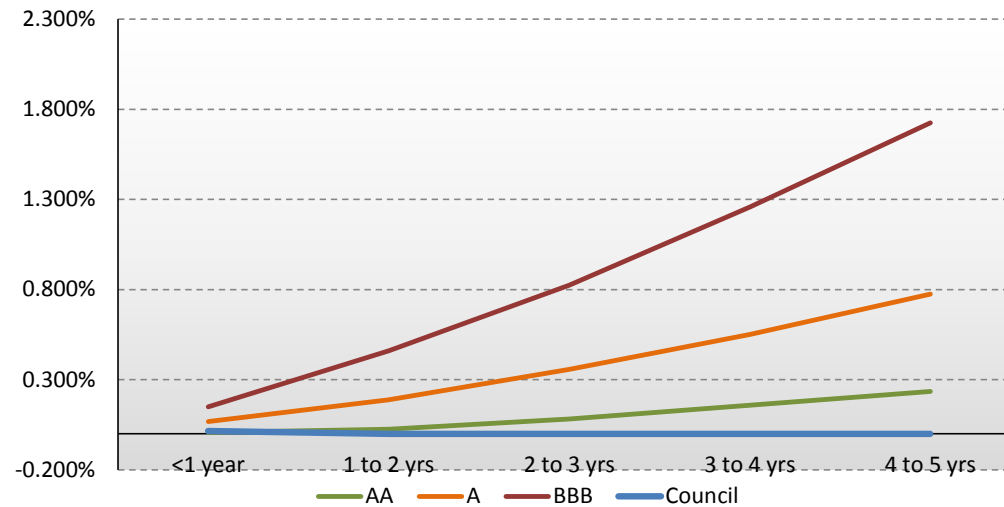
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	39.51%	£319,200,000	46.74%	£149,200,000	18.47%	0.52%	33	58	63	108
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	5.15%	£41,600,000	0.00%	£0	0.00%	0.41%	21	179	21	179
Orange	3.09%	£25,000,000	0.00%	£0	0.00%	0.36%	101	147	101	147
Red	49.76%	£402,000,000	27.34%	£109,900,000	13.60%	0.66%	129	186	177	255
Green	2.48%	£20,000,000	0.00%	£0	0.00%	0.77%	327	364	327	364
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
	100.00%	£807,800,000	32.07%	£259,100,000	32.07%	0.59%	90	138	132	203

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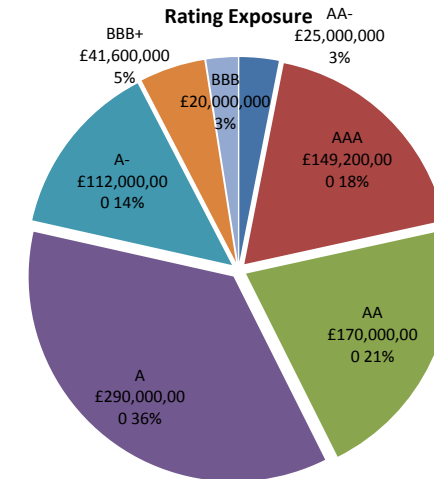
Investment Risk and Rating Exposure

Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.007%	0.024%	0.081%	0.158%	0.234%
A	0.067%	0.189%	0.356%	0.551%	0.775%
BBB	0.150%	0.460%	0.824%	1.257%	1.726%
Council	0.015%	0.000%	0.000%	0.000%	0.000%



Historic Risk of Default

This is a proxy for the average % risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment.

Chart Relative Risk

This is the authority's risk weightings compared to the average % risk of default for "AA", "A" and "BBB" rated investments.

Rating Exposures

This pie chart provides a clear view of your investment exposures to particular ratings.

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Monthly Credit Rating Changes

FITCH

Date	Update Number	Institution	Country	Rating Action
02/05/2017	1521	Sumitomo Mitsui Banking Corporation Europe Ltd	U.K	Long Term Rating affirmed at 'A', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'F1'
24/05/2017	1524	Credit Agricole Corporate and Investment Bank	France	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'F1'
24/05/2017	1524	Credit Agricole SA	France	Long Term Rating upgraded to 'A+' from 'A', Outlook changed to Stable from Positive. Short Term Rating affirmed at 'F1'

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Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
02/05/2017	1520	Standard Chartered Bank	U.K	Long Term Rating downgraded to 'A1' from 'Aa3', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'
11/05/2017	1522	Bank of Montreal	Canada	Long Term Rating downgraded to 'A1' from 'Aa3', Negative Outlook. Short Term Rating affirmed at 'P-1'
11/05/2017	1522	Bank of Nova Scotia	Canada	Long Term Rating downgraded to 'A1' from 'Aa3', Negative Outlook. Short Term Rating affirmed at 'P-1'
11/05/2017	1522	Canadian Imperial Bank of Commerce	Canada	Long Term Rating downgraded to 'A1' from 'Aa3', Negative Outlook. Short Term Rating affirmed at 'P-1'
11/05/2017	1522	National Bank of Canada	Canada	Long Term Rating downgraded to 'A1' from 'Aa3', Negative Outlook. Short Term Rating affirmed at 'P-1'
11/05/2017	1522	Royal Bank of Canada	Canada	Long Term Rating downgraded to 'A1' from 'Aa3', Negative Outlook. Short Term Rating affirmed at 'P-1'
11/05/2017	1522	Toronto Dominion Bank	Canada	Long Term Rating downgraded to 'Aa2' from 'Aa1', Negative Outlook. Short Term Rating affirmed at 'P-1'
25/05/2017	1525	Abu Dhabi Sovereign Rating	Abu Dhabi	Sovereign Rating affirmed at 'Aa2' , Outlook changed to Stable from Negative
30/05/2017	1526	Qatar Sovereign Rating	Qatar	Sovereign Rating downgraded to 'Aa3' from 'Aa2' , Outlook changed to Stable from Negative
31/05/2017	1527	National Bank of Abu Dhabi	Abu Dhabi	Long Term Rating affirmed at 'Aa3', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'P-1'

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Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
22/05/2017	1523	Nordea Bank AB	Sweden	Long Term Rating affirmed at 'AA-', Outlook changed to Stable from Negative. Short Term Rating affirmed at 'A-1+'